

World Broiler Trade Overview

World Poultry Exports Expected to Increase 7.2% in 2005; Brazil Maintains Lead

World Trade:

Brazil is the emerging leader in broiler meat exports, surpassing the United States in the 2004 and 2005 forecasts. However, Asian markets will determine long-term growth in broiler meat production and consumption. In 2003 and 2004, high pathogenic avian influenza (HPAI) outbreaks disrupted production and exports in Asia, Netherlands, Canada and the United States. Although HPAI outbreaks have limited world broiler meat exports, other economic factors such as exchange rates, energy prices, and feed production are influencing broiler meat production of leading suppliers. In 2004, cooked poultry meat production significantly grew as Asian suppliers adjusted to bans placed on uncooked poultry meat due to avian influenza (AI) outbreaks. Increased demand from consuming countries and increased interest from supplying countries wishing to mitigate market risk from AI-related bans will influence cooked poultry production and trade. In late 2003 and 2004, demand shifts for cooked broiler meat in Japan and the EU resulted from import-bans due to AI. Both China and Thailand shifted a considerable amount of exports from uncooked to cooked poultry to reduce export market loss due to HPAI outbreaks. Despite these efforts, Brazil largely benefited from its competitors' loss of exports in key markets.

Key Exporters:

- **United States:** In 2005, U.S. broiler meat exports are expected to increase by 6 percent as demand moves higher in response to falling prices, production increases and abundant stocks of frozen leg quarters. In the first part of 2004, U.S. exports to some major markets show significant shifts. In 2004, broiler meat exports are expected to fall due to four factors; relatively higher prices compared to 2003, administrative TRQ-related actions by Russia, stronger competition from Brazil, and import bans due to AI. U.S. broiler meat export-volume in January-August 2004 was up 31 percent to Middle Eastern countries, down 8 percent in Caribbean countries, down 83 percent to China, down 50 percent to Hong Kong and down 58 percent to Korea. U.S. broiler production in 2004 has been expanding at a moderate rate despite weakening prices for individual cuts of meat. In 2005, production is forecast at 16 million tons, a 3-percent increase from the previous year.

Domestically, 2004 has been a favorable year for the poultry industry, since demand for poultry meat has been strong. Low-carbohydrate diets and rising incomes have fueled this increase in consumption. U.S. broiler meat consumption in 2005 is forecast to increase 3 percent.

- **Brazil:** In 2005, Brazilian broiler meat exports are projected to increase by 10 percent fueled by competitive pricing, market promotion efforts, favorable exchange rates and AI-related import bans on major competitors. In the first part of 2004, broiler meat exports were up 22 percent to 1 million tons. This increase was largely attributed to rising export opportunities in Japan, the Commonwealth of Independent States (CIS), and Saudi Arabia, where Brazil remains competitive and is a reliable

supplier. Brazil's marketing strategy to increase valued-added poultry meat (such as high-end cuts and processed broilers) the vast majority of Brazil's exports remains to the top import-markets. Brazil's export-growth to these markets was in larger increments than usual. From January through August 2004, Brazil increased broiler meat exports to Japan by 65 percent, to Saudi Arabia by 13 percent and to CIS countries by 259 percent. In Russia, Brazil has been constrained by its inability to obtain an individual quota allocation, thus, its poultry meat is imported under an "other country" quota. While Brazil seeks an individual quota allocation, the Russian government has not been willing to grant one.

Combined with relatively low feed grain costs, relatively low labor costs, and increasingly larger economies of scale, Brazil's production costs for whole eviscerated chicken are estimated to be the lowest of any major supplier at 1.37 Real/kg (US \$0.48/kg).

- **European Union-25:** In 2005, broiler meat production is expected to grow by less than 1 percent to just under 8 million tons. Improved feed costs following droughts in 2003 and recovery from AI are factors in the European Union's growth in broiler meat production. In the first eight months of 2004, production in Belgium and the Netherlands slowly recovered from the devastating 2003 AI outbreaks, while French broiler production marginally decreased due to higher production costs and sluggish export growth. However, Germany and Spain's production is expected to be stimulated in 2004 due to an upward trend in demand. In the first six months of 2004, the bulk of the European Union's broiler meat exports went to Ukraine, Saudi Arabia, Russia and Yemen.

NOTE: The complete PSD data series for the EU has been modified to account for the 10 new members. Please refer to "Notes on European Data" on page 29 for details.

- **Thailand:** Significant HPAI outbreaks in commercial flocks combined with concerns over human health are expected to lower Thailand's broiler meat exports in 2004 by 52 percent. In 2005, Thai broiler meat exports are not expected to fully recover to levels of recent years and broilers exports forecast is up 18 percent to 300,000 tons in 2005, which is the result of shifting from producing fresh/chilled meat to cooked or processed meat for export. Import bans on Thai fresh/chilled poultry meat is the principal factor underlying this shift in production. Thai broiler production in 2005 is forecast to increase by 3 percent to 950,000 tons. This increase is supported by the 16 percent growth consumption most prominently attributed to falling domestic prices. High stock levels in leg-quarters and increases in production are depressing boiler meat prices, making it more accessible to price-sensitive consumers. Given the severity of HPAI outbreaks, its implications to food safety, and the growing global concern with biosecurity, it is highly unlikely that countries will lift import bans on Thai fresh poultry meat in 2005. In fact, the recent reoccurrence of HPAI in July 2004 could indicate that the disease is becoming endemic in Thailand.

- **China:** China's broiler meat exports for 2005 are forecast to recover by 20 percent to 300,000 tons due to an increase in demand from Japan. Under China's poultry trade protocol agreement with Japan, China is allowed to export cooked poultry meat. The protocol provided a powerful incentive to install cooking facilities in the Chinese poultry processing plants for export to Japan. In January- August 2004, Chinese broiler meat exports to Japan were 76,000 tons. China's broiler meat exports have traditionally, but no longer include U.S. broiler meat that had been processed or deboned for re-export to Japan. China is seeking USDA approval to export cooked poultry to the United States, which could lead to an expansion in China's broiler meat exports overall. In 2005, broiler production is forecast to increase by 3 percent to nearly 10 million tons due in part to recovery from AI outbreaks in 2003 and 2004.
- **Canada:** In 2005, Canada's broiler meat exports are forecast at 75,000 tons, a 7-percent increase from the previous year. Canadian broiler meat production experienced a shock in February 2004, when HPAI outbreaks hit the Fraser Valley area of Southern British Columbia (BC). BC's share of national poultry and egg output is approximately 16 percent for chicken, 11 percent for turkey and 12 percent for eggs. Canadian broiler meat production in the first seven months of 2004 fell only by 2 percent, as other broiler producing regions in Canada increased production to offset the significant depopulation in BC. Due to import-bans placed on Canadian poultry products, from January-August 2004, Canadian broiler meat exports to the world fell 20 percent from the previous year. In 2003, Canada's major export markets for broiler meat included the United States, South Africa, Russia, China and Cuba.
- **Argentina:** Argentine broiler meat exports for 2005 are projected at 90,000 tons, a record-level high. Increased profitability due to favorable exchange rates, new market opportunities, moderately good sanitary conditions, and heavy investment in plant and equipment are the foundation for record exports. Argentina's export growth can also be attributed to good feed grain crops in recent years and steady recovery from the 2002 economic crisis. In 2004, Argentine broiler meat exports are forecast to nearly double; in January-August 2004 exports have risen 51 percent. In 2004, Argentina's top export markets include China, Chile, Saudi Arabia and South Africa. Through trade agreements and aggressive marketing efforts, Argentina is focusing export expansion efforts on import-dependent markets, such as Mexico, South Korea, and Japan. Broiler production for 2005 is forecast at a record 990,000 tons.

Key Importers:

- **Russia:** Russian broiler meat imports are forecast to decrease by 7 percent in 2005 in anticipation that problems with implementing the poultry tariff rate quota (TRQ) and licensing continue. The forecast for 2004 Russian imports assumes the United States and the European Union will not completely fill its quota. In the case of the United States, although Russia did not implement a full country ban on its major supplier, in 2004, imports were greatly affected by the delisting of U.S. plants and the delayed distribution of TRQ licenses in later part of 2003. In the case of the European Union, the delay was due in part to a re-inspection of new EU member plants in the late summer and strict quarantine requirements. As broiler meat prices rose due to tighter

supplies, Russian importers shifted imports to lower quality spent hen or cheaper turkey meat. Russian broiler meat production is forecast to grow 13 percent in 2005 sustained by continued investment in the sector, high demand and high domestic prices.

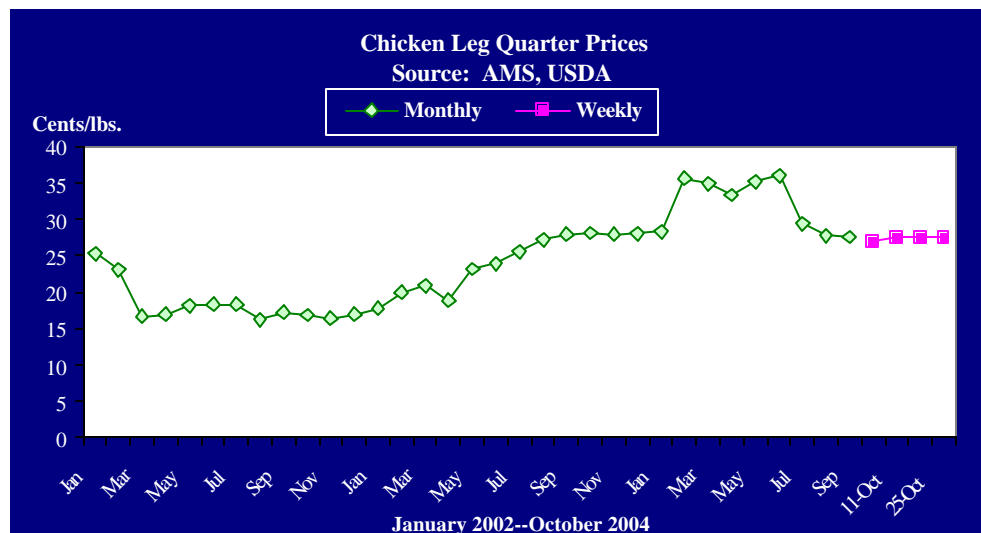
- **European Union-25:** In 2004, production is expected to recover following outbreaks of AI in 2003 in the Netherlands and Belgium. EU broiler meat imports in 2004 are forecast to drop 9 percent from the previous year to 305,000 tons and decline another 2 percent in 2005 to 300,000 tons. Brazil has adapted to the European Union's new tariff classification on processed broilers in brine and is competing in the cooked product sector against Thai product. Consumption is expected to grow marginally in 2004 and 2005 as consumers substitute poultry for beef due to higher beef prices. In the first six months of 2004, Thailand held on to 26 percent of the market share for broiler meat import in the European Union.

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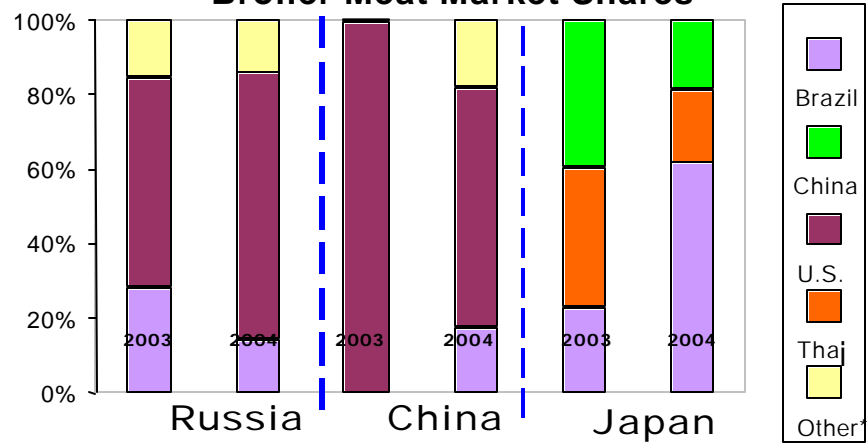
- **Canada:** Due to AI outbreaks in the early part of 2004, Canada initiated a special supplementary import provision to the TRQ in order to facilitate additional imports to offset declines in domestic production. Broiler meat imports for 2004 are forecast to increase 60 percent to 130,000 tons. Although Canada recognizes Brazil as an eligible meat exporter, Brazil has not established a strong export market in Canada and only exported 9,000 tons of frozen broiler meat in January-July 2004. In 2003, Canada imported 15 percent more U.S. broiler meat than the previous year. Canadian broiler meat imports primarily consist of fresh and chilled chicken cuts and edible offal for further processing.
- **Japan:** In 2005, Japan broiler meat imports are projected to grow in 2005 by 6 percent to 530,000 tons, after an expected 28-percent decrease in 2004. Additionally, import bans are likely to continue limiting the supply availability and result high prices. Consumption is expected to rise slightly in 2005, keeping market prices relatively stable. Brazil is expected to maintain its large market share for broiler meat in 2005, while imports from the United States are expected to rebound from import bans partially lifted in July and October of 2004. Imports of cooked product from Thailand and China are expected to rise in 2005.
- **China:** Following an expected 51-percent decline in imports in 2004 due to market and trade disruptions resulting from AI, imports in 2005 are forecast to rise 36 percent to 300,000 tons due in part to improvements in consumer demand. The forecast assumes no U.S. broiler meat imports in 2005 because there has been no change in the AI import ban policy. Brazil and Argentina have positioned themselves in the Chinese markets as the leading suppliers taking market share for bone-in broiler meat from the United States. China expects to implement new import regulations in November 2004 that requires all meat and poultry products re-exported through Hong Kong be pre-inspected by a Hong Kong Inspection company. This

regulatory change is aimed at keeping South American broiler meat, which is has been frequently relabeled as U.S. product from entering the Chinese market.

- **Saudi Arabia:** Broiler meat imports are estimated to reach 443,000 tons in 2005, a 2-percent increase from the previous year. The main reason for the boost of Saudi broiler meat demand is the increase in pilgrims expected to visit Mecca in 2005. Despite various government subsidies provided to the local poultry industry, Saudi producers claim to have difficulty competing with imports. From January-June of 2004 Brazilian broiler meat imports surged after an import ban was placed on Chinese poultry meat. At the same time, imports from France significantly declined due to lower French production and a strengthening of the Euro in relation to U.S. exchange rates (Saudi Riyal is fixed at a rate of 3.75 to the U.S. dollar).
- **Mexico:** Broiler meat imports for 2004 are forecast to increase 6 percent to 356,000 tons and another 2 percent in 2005 to 364,000 tons. There is strong demand for Mechanically Separated Meat (MSM) among Mexico's food and meat processors. MSM and turkey parts for use in sausage and processed deli meats are the main poultry products imported by Mexico. Broiler meat demand continues to increase due to its relatively lower price compared to red meat. The lifting of sanitary restrictions by Mexico due to AI outbreaks in the United States is expected to improve overall Mexican broiler meat imports in 2004 and 2005. Traders along the Mexican border (southern and northern), are optimistic about filling the 101,000-ton import quota for leg quarters in 2004.



Shifts in Competitors in Selected Major Broiler Meat Market-Shares



* Other: Includes Argentina and Canada; accounts for the largest market shares in this aggregate.

Note: Market shares based on 2003-04 Jan-Jun import statistics as reported by Russia, China and Japan.